



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PSP 730.4.15

31 July 2000
00-PSP-067(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Single Process Initiative (SPI)--Audit Guidance, Background Information, Reference Materials, and Agreed-Upon Procedures Program

This memorandum transmits an agreed-upon-procedures program for use in evaluating the SPI cost-benefit analysis (Enclosure 1). This agreed-upon-procedures program is an update of the draft program that was issued in March 1998. The update incorporates the recommendations received from the field, regions and headquarters. This memorandum also consolidates and updates the SPI guidance, information previously provided, and supercedes the following open Memorandums for Regional Directors (MRDs):

Date	MRD Number	Subject
03/13/1998	98-PSP-033	Audit Guidance Update on the Single Process Initiative
09/29/1999	99-PSP-103	DoD Policy Memorandum Concerning Corporate Councils

Background information and reference materials on SPI are provided in Enclosure 2 and its 5 attachments.

Guidance

The auditor's principle responsibility in the SPI is to evaluate the contractor's cost-benefit analysis. The cost-benefit analysis is a rough order of magnitude (ROM) estimate of the costs and savings associated with the process change. The cost-benefit analysis does not need to be supported by cost or pricing data. The auditor's other responsibilities in the SPI include the following:

- To act as the administrative contracting officer's (ACO's) financial advisor;
- To participate on management councils; and
- To provide advice to the management council, on proposed process changes that impact DCAA areas of expertise (for example, cost or pricing data or Cost Accounting Standards waivers).

CAM 1-807 provides the guidance on evaluating the contractor's cost-benefit analysis. The evaluation should be completed as an application of agreed-upon procedures in accordance with CAM 9-207. The level of detail required to support the rough order of magnitude (ROM) estimates in the cost-benefit analysis depends upon the complexity of the proposed change, the government's participation in the estimated implementation costs and savings, and the materiality of the estimated implementation costs and savings. Parametrics and information other than historical data may be used to support the estimates, if appropriate. If the monetary benefits do not exceed implementation costs, then the contractor should explain how the change will benefit the government (e.g., increased quality, faster deliveries, etc.).

SUBJECT: Single Process Initiative (SPI)--Audit Guidance, Background Information, Reference Materials, and Agreed-Upon Procedures Program

The agreed-upon procedures report on the cost-benefit analysis should clearly explain any inadequacies or unresolved issues or concerns impacting the cost-benefit analysis. The reports on the SPI cost-benefit analysis should follow the guidance in CAM 10-1000 for the application of agreed-upon procedures. Report examples are provided as Enclosure 3.

If the cost impact of the approved process change is significant, then the auditor should ensure that the impact is reflected in the contractor's estimating system and forward pricing. The auditor should update the estimating system internal controls assessment (Internal Control Audit Planning Summary or Internal Control Questionnaire) to indicate whether the contractor has an effective procedure for incorporating the impact of approved process changes into the forward pricing estimates. The auditor should ensure that new price proposals and the contractor's forward pricing rates reflect the cost impact of the approved process changes.

CAM 1-807 also provides guidance on the auditor's participation on management councils. The DCAA representative on the management council should take the lead in discussing process changes that impact DCAA's areas of expertise, for example, Cost Accounting Standards (CAS), the Truth in Negotiations Act (TINA), internal control systems, and DCAA oversight.

As a participant on the management council, the auditor may be asked to sign a teaming agreement. Generally, the auditor should not sign such an agreement. Guidance is provided in CAM 1-808 for Memorandums of Agreement.

If you have any questions, please contact Susan Katterheinrich, Program Manager, Special Projects Division at (703) 767-3290, fax (703) 767-3234 or e-mail at DCAA-PSP.

/signed/
Lawrence P. Uhlfelder
Assistant Director
Policy and Plans

Enclosures - 3

1. Agreed Upon Procedures Program--Single Process Initiative (SPI) Cost-Benefit Analysis
2. SPI Background Information and Reference Materials with the following attachments:
 - A. SECDEF Memorandum, 6 December 1995, Subject: Common Systems/ISO-9000/Expedited Block Changes
 - B. USD (A&T) Memorandum, 8 December 1995, Subject: Single Process Initiative
 - C. DCMA Memorandum, 19 November 1996, Subject: Single Process Initiative (SPI)--Cost Benefit Analysis
 - D. USD (A&T) Memorandum, 3 June 1998, Subject: The Single Process Initiative--A Long Term Perspective
 - E. USD (A&T) Memorandum, 14 September 1999, Subject: Corporate Councils
3. Report Examples

DISTRIBUTION: C

DEFENSE CONTRACT AUDIT AGENCY

APPLICATION OF AGREED UPON PROCEDURES SINGLE PROCESS INITIATIVE (SPI) COST-BENEFIT ANALYSIS

Contractor Name:

Assignment Number:

Field Audit Office:

Supervisor's Approval & Date:

Version 1.0 dated 31 July 2000

A. PURPOSE AND SCOPE

1. **Purpose.** These evaluation steps were prepared for the following purposes:
 - To provide procedures to evaluate whether the contractor's SPI cost-benefit analysis provides a reasonable general dollar magnitude estimate of implementation costs and related savings.
 - To ensure that the impact of the approved SPI process change is reflected in the contractor's estimating system and forward pricing.
2. **Scope.** The evaluation steps selected for completion, or added as necessary, represent a determination of requirements based on auditor judgment, the supervisor's risk assessment, and a clear understanding of the ACO's requirements.

B. REFERENCES

1. MRD OO-PSP-067(R) , 31 July 2000, Subject: Audit Guidance on the Single Process Initiative (SPI)
2. DLAD 5000.4, Contract Management (DCMA One Book). Chapter 0.2, Civil Military Integration (Single Process Initiative) available at <http://www.dcmc.hq.dla.mil/onebook/0.0/0.2/CMI.htm>.
3. DCMA Information Memorandum No. 99-52, 30 November 1998, Subject: Lesson Plan – Guidance on Writing Single Process Initiative Concept Paper, available at http://www.dcmc.hq.dla.mil/Memos/Info/99_ltrs/dc99-52.htm
4. CAM 1-807 — Management Councils
5. CAM 9-207 — Application of Agreed-Upon Procedures
6. CAM 10-1000 — Report Narrative (Agreed-Upon Procedures)

C. PRELIMINARY STEPS

WP Reference

1. Review the request for special requirements and scope limitations. Coordinate with the ACO to gain a complete understanding of the concept paper and the appropriate DCAA services required to meet the needs of the request. Confirm your understanding of the agreed-upon procedures in the working papers and in writing with the ACO, as necessary.
2. Review the concept paper submitted by the contractor to gain an understanding of the proposed change.
3. If a government technical review has not already been initiated, request technical support if needed. If the technical review has been requested, contact the government technical representative to determine their areas of review and if their results will be available to incorporate into the review report.
4. Review permanent files and prior evaluations to obtain background information.
5. Hold an entrance conference.

D. DETAILED PROCEDURES

WP Reference

1. Perform the steps agreed upon with the ACO (Step C-1), which should include the following (CAM 1-807h) to determine if the contractor's cost-benefit analysis is a reasonable general dollar magnitude estimate of implementation costs and related savings:
 - a. Determine if the cost-benefit analysis is adequate. Attributes of an adequate cost-benefit analysis are as follows:
 - (1) The cost-benefit analysis should include an analysis of:
 - Implementation costs,
 - Estimated savings on existing contracts, and
 - Estimated annual future savings to reflect in forward pricing.
 - (2) The annual future savings should be forecasted for the period covered by the contractor's indirect expense rate forecast (usually five years).
 - (3) The cost-benefit analysis should identify both direct and indirect implementation costs and savings. Estimated implementation costs and savings should be broken down by the contractor's normal direct and indirect costs elements.
 - (4) The cost-benefit analysis should include the rationale to support significant estimates of implementation costs and savings.
 - (5) The cost-benefit analysis should identify recurring versus non-recurring implementation costs and savings.

D. DETAILED PROCEDURES

WP Reference

- (6) All applicable existing contracts should be considered in the analysis.
- b. If essential cost-benefit analysis elements are missing, then conduct fact-finding with the contractor to obtain the information or the reasons why the information is not relevant. If the fact-finding does not result in obtaining the necessary information, request, in writing, the assistance of the ACO.
- c. Evaluate the contractor's estimating rationale for the implementation costs and savings to determine its reasonableness.
- d. Evaluate the supporting computations to determine their accuracy.
2. Perform the following steps to ensure that the impact of the approved process change is reflected in the contractor's estimating system and forward pricing.
 - a. Determine whether the contractor has adequate internal controls and estimating system procedures for incorporating the future savings associated with Management Council approved process changes into its forward pricing.
 - b. If the contractor does not incorporate the impact of approved process changes into forward pricing and the impact is significant, consider issuing an estimating system deficiency flash report (see CAM 9-310).
 - c. Prepare audit lead sheets to document the estimated forward pricing impact of the approved process change and any estimating system deficiencies for use in future forward pricing and estimating system audits.
3. Perform other procedures as requested.

E. CONCLUDING STEPS

WP Reference

1. Summarize results of applying agreed-upon procedures.
2. If the estimating system controls are inadequate to assure incorporation of the change, schedule an ICAPS review of affected areas.
3. Discuss the results with your supervisor.
4. Conduct exit conference with contractor and document results.
5. Draft the report following the guidance in 00-PSP-067(R), 31 July 2000 and CAM 10-1000.

SPI Background Information and Reference Materials

1. In General

The Single Process Initiative (SPI) allows contractors to have existing contracts modified to replace multiple government-unique management and manufacturing systems with common, facility-wide systems. Contractor proposals are reviewed and approved by a Management Council, which is composed of senior representatives from customer buying activities and program management offices, the Defense Contract Management Agency (DCMA), DCAA, and contractors. After approval of a contractor's SPI proposal, the Administrative Contracting Officer (ACO) executes a block change modification that modifies all affected contracts at the facility. DCMA has the lead for implementation of SPI.

2. Department of Defense (DoD) SPI Implementing Guidance

The SPI was implemented in December 1995 in response to the Secretary of Defense's 5 December 1995 memorandum (Attachment A), which directed the Under Secretary of Defense (Acquisition & Technology) (USD (A&T)) to promulgate SPI guidance. On 8 December 1995 the USD (A&T) issued the DoD SPI guidance memorandum (Attachment B). Highlights of this USD (A&T) memorandum are as follows:

- Replacement of multiple government-unique management and manufacturing systems with common, facility-wide systems should, in the long run, reduce costs.
- It is anticipated, in most cases, that contractors will incur transition costs that will equal or exceed savings in the near term.
- An expedited, streamlined approach for reviewing contractors' concept papers to adopt single processes is advocated to ensure SPI proposals are technically acceptable and to quickly identify those cases where there may be a significant decrease in the cost of performance of existing contracts.
- A 120 day target for reviewing the concept paper and making contract block changes is recommended.
- The contractor's SPI concept paper should include a cost-benefit analysis adequate to determine the rough order of magnitude (ROM) of the costs and benefits to the contractor, including any impact on the cost of performance of existing contracts.
- The detail included in the contractor's concept paper/cost analysis is intended to be just sufficient to allow an informed, rapid judgment by the ACO on whether proposed changes can be approved on a no-cost, block change basis.
- The cost-benefit analysis will be performed without requesting cost or pricing data.
- In those cases where the contractor's proposal will result in significant decreases in the overall net cost of performance of existing contracts, the contractor should be asked to submit a formal proposal for an equitable adjustment (consideration) and to submit separate, detailed cost data in support of the proposed amount.
- DCMA will manage the SPI.

3. DCMA Policy on SPI Cost-Benefit Analysis

On 19 November 1996, DCMA issued guidance (Attachment C) that

- Advises that it is the Administrative Contracting Officer's (ACO's) responsibility to ensure that the cost-benefit analysis is adequate;
- Describes the attributes of an adequate cost-benefit analysis; and
- Advises that the cognizant DCAA office should be requested to analyze the cost-benefit analysis and provide advice as to its reasonableness.

DCMA Contract Administration Offices (CAOs) are encouraged to assist the contractor in developing SPI concept papers. DCMA Information Memorandum No. 99-52, dated 30 November 1998, Subject: Lesson Plan--Guidance on Writing Single Process Initiative (SPI) Concept papers provides guidance on preparing a concept paper. It provides guidelines on the elements that should be provided in the concept paper, including the cost-benefit analysis. The section concerning the cost-benefit analysis states the following:

- Present a rough order of magnitude analysis, which includes current and future cost and savings (show net cost savings as there may be initial costs associated with implementation)].
- Determine if implementation is advantageous (cost effective) to the Government.
- Base information on empirical data.
- Identify requirements to be deleted along with an estimated annual savings to existing contracts; if the impact on a particular contract or program is material, provide details by contract or my customer.
- Include an estimate of annual future savings forecasted for the period covered by contractor's indirect expense rate forecast (usually five years).
- Break down estimated costs and savings by normal direct and indirect cost elements and identify recurring costs vice non-recurring costs and savings.
- Will the Government recognize savings in the way of lower overhead rates to be used in pricing products in future years?
- Will forward pricing rate agreements be affected?
- If monetary costs do not exceed implementation costs, identify how change will benefit the Government (e.g., increased quality, faster deliveries, etc.).
- Perform analysis without requesting certified cost or pricing data.
- Usually, the same information prepared by the contractor to obtain management approval for the proposed change will suffice.

DCMA policy concerning SPI has been incorporated into DLAD 5000.4, Contract Management (DCMA One Book). The chapter concerning the SPI is available on DCMA's Home Page at <http://www.dcmc.hq.dla.mil/onebook/0.0/0.2/CMI.htm>. The SPI One Book chapter includes a hyperlink to DCMA Information Memorandum No. 99-52 (<http://www.dcmc.hq.dla.mil/onebook/0.0/0.2/DC99-52.htm>).

4. USD (A&T) Memorandum, 3 June 1998, "The Single Process Initiative--A Long Term Perspective

Initially, SPI was intended to be a short-term initiative. However, on 3 June 1998, the USD (A&T) issued a memorandum, titled "The Single Process Initiative--A Long Term Perspective," which institutionalizes the SPI. See Attachment D. This memorandum identifies the SPI as the mechanism to implement contract changes that facilitate civil military integration. This memorandum also established an SPI Executive Council, comprised of representatives from corporate management councils, industry associations and DoD management. The Director, DCAA, is a member of this council.

5. USD (A&T) Memorandum, 14 September 1999, " Corporate Councils"

On 14 September 1999, the USD (A&T) issued a memorandum that expands existing policy on SPI to provide guidance on the Department's relationship with Corporate Councils. See Attachment E. Among the issues addressed are where the cost-benefit will be assessed and the corporate council's authority:

- **Assessment of the Cost Benefit Analysis--**"Assessment of the cost benefit of the proposed change can be made either on a business segment basis, or facility by facility basis, depending on the nature of the change."
- **Corporate Council Authority--**
 - "Single Process Initiative block change proposals that potentially affect essential business arrangements or product form, fit, function, or interface, require approval from affected Program Managers and Procuring Contracting Officers. Component representatives shall notify the DCMA in writing when the review is complete and approval has been obtained."
 - "Corporate Council representatives coordinate the Concept Paper with their respective constituents. Based on review results, the Corporate Council endorses or rejects the paper."

6. Other SPI Information

Detailed information on SPI, including policy documents, briefings, Executive Council meeting minutes, and quarterly reports that highlight the SPI significant activities, are available on the DCMA home page at <http://www.dcmc.hq.dla.mil> (under "Centers of Excellence" select "Civil Military Integration (SPI)").

THE SECRETARY OF DEFENSE
Washington, DC 20301-1000

6 DEC 1995

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARY OF DEFENSE (ACQUISITION AND
TECHNOLOGY)
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (COMMAND,
CONTROL, COMMUNICATIONS AND INTELLIGENCE)
GENERAL COUNSEL
INSPECTOR GENERAL
DIRECTOR OF OPERATIONAL TEST AND EVALUATION
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Common Systems/ISO-9000/Expedited Block Changes

My June 29, 1994, memorandum on Specifications and Standards directed the use of performance specifications to the maximum extent practicable, and the development of a streamlined procurement process to modify existing contracts to encourage contractors to propose non-government specifications and industry-wide practices that meet the intent of military specifications and standards which impose government-unique management and manufacturing requirements. Although much progress is being made in applying these principles on new contracts, this progress has itself shown that government-unique requirements on existing contracts prevent us from realizing the full benefits of these changes by requiring, in a single facility, multiple management and manufacturing systems designed to accomplish the same purpose. Because it is generally not efficient to operate multiple, government-unique management and manufacturing systems within a given facility, there is an urgent need to shift to facility-wide common systems on existing contracts as well.

In order to meet our military, economic and policy objectives in the future, and to expedite the transition to this new way of doing business, the direction given in The Secretary's June 29, 1994, memorandum is hereby revised. In addition to the direction given there for government-unique specifications and standards, I now direct that block changes to the management and manufacturing requirements of existing contracts be made on a facility-wide basis, to unify management and manufacturing requirements within a facility, wherever such changes are technically acceptable to the government. The single point of contact for this effort will be the Administrative Contracting Officer (ACO) assigned to a facility.

Attachment A

The Under Secretary of Defense for Acquisition and Technology shall issue additional guidance necessary to facilitate the Department's streamlined review of contractor's proposals to replace government-unique management and manufacturing requirements in existing contracts with uniform requirements within the contractor's facilities.

We cannot afford to allow "business as usual" to delay this initiative. I therefore request that you and your leadership take an active role in expediting the transition of existing contracts and reprocurments to common systems.

SIGNED
William J. Perry

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

Seal Omitted

ACQUISITION AND
TECHNOLOGY

DEC 08 1995

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (COMMAND,
CONTROL, COMMUNICATIONS AND INTELLIGENCE)
GENERAL COUNSEL
INSPECTOR GENERAL
DIRECTOR OF OPERATIONAL TEST AND EVALUATION
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Single Process Initiative

Secretary Perry's memorandum of December 6, 1995 requested that I promulgate guidance for making block changes to existing contracts to unify the management and manufacturing requirements of those contracts on a facility-wide basis, wherever such changes are technically acceptable to the government. Secretary Perry further directed that the single point of contact for this effort will be the Administrative Contracting Officer (ACO) assigned to a facility. Accordingly, I am providing the following additional guidance on these issues.

Replacement of multiple government-unique management and manufacturing systems with common, facility-wide systems should, in the long run, reduce the costs to both our contractors and the DoD. Contractors will, however, in most cases incur transition costs that equal or exceed savings in the near term. We expect that cases where this does not hold true are in the minority, mostly dealing with high value, long-term contracts. Accordingly, I direct use of an expedited, streamlined approach to ensure that the contractors' proposals of block changes are technically acceptable and to quickly identify those cases where there may be a significant decrease in the cost of performance of existing contracts.

ACOs are directed to encourage contractors to prepare and submit concept papers (see the attached TAB A) describing practices that will permit uniform, efficient facility-wide management and manufacturing systems and a method for moving to such systems. Contractor recommendations included in the concept paper should be accompanied by a cost-benefit analysis adequate to determine the rough order of magnitude of the costs and benefits to the contractor of the proposed system changes (including any impact on the cost of performance of existing contracts). This cost benefit analysis shall be performed

Attachment B

without requesting certified cost or pricing data. The detail included in these concept papers/cost analyses is intended to be just sufficient to allow an informed, rapid judgement by the ACO on whether proposed changes to management and manufacturing processes can be approved on a no-cost, block change basis, applying guidance in this letter.

Where such a proposal is technically acceptable and there are no significant net savings in the cost of performing existing contracts, the ACO, after appropriate consultation with program managers, shall issue class modifications to those contracts without seeking an equitable adjustment. In those cases where the contractor's proposal will result in significant decreases in the overall net cost of performance of existing contracts, the contractor should be asked to submit a formal proposal for an equitable adjustment (consideration) and to submit separate, detailed cost data in support of the proposed amount. The negotiation of equitable adjustments should not delay the modification of contracts.

Note that the specific shift from MIL-Q-9858A to ISO-9000 does not in itself result in significant contractor savings in most contracts, and hence can be made on an expedited basis.

I also direct that, effective immediately, ACOs have the authority to execute class modifications, subject to receipt of necessary programmatic authorization from affected components.

The Commander, Defense Contract Management Command (DCMC) shall approve all requests for certified cost or pricing data in connection with this initiative unless such data are required by law. He will also be the focal point for implementing these efforts within DoD, and will facilitate the coordination of the change process. Tab A depicts the block change process detailing underlying assumptions, roles, and responsibilities.

The Commander, DCMC should prepare for me and for the Component Acquisition Executives a brief quarterly report that describes the progress achieved in replacing multiple government-unique management and manufacturing requirements in existing contracts with more efficient, common facility-wide practices.

SIGNED
Paul G. Kaminski

Attachment

BLOCK CHANGE PROCESS

The block change process depicted here designates DCMC as the lead facilitator to implement plant-wide changes. The process is built on existing structures within the components and OSD and is designed to create a sense of urgency in the approval process for streamlining of specifications, standards or other processes.

PROPOSAL DEVELOPMENT

Industry is encouraged to prepare and submit concept papers for streamlining specifications and standards with emphasis on early customer involvement and interface. Once the cost and benefit of the change has been determined through this early involvement, industry shall submit block change proposals. As a minimum, the proposals should detail the proposed processes and associated metrics, rough order of magnitude cost benefit analysis, the consequent changes in government's involvement in the process and required regulatory/contractual changes.

APPROVAL

Following submittal of the proposal, the Contract Administration Office (CAO) shall determine the contractual/regulatory scope of change, confirm the component customer base impacted and, if required, organize a local management council based on the nature of the proposal. The management council should be comprised of senior level representatives from the local CAO, the cognizant Defense Contract Audit Agency (DCAA) office, the contractor and subject matter experts representing the key customers within the affected components. Notionally, the key customer base shall be comprised of customers who represent 80% of the total dollar value of affected contracts.

ROLES AND RESPONSIBILITIES

The role of the management council is to analyze the merits and cost benefits of the change. Empowerment of subject matter experts from the key customer base is critical. To minimize delay, a component team leader should be designated and granted decision authority by the CAE to represent the key customer base. Component team leaders are responsible for achieving consensus with other component team leaders, the key customer PCOs and PMs, the component team members and the CAE. The CAO should be responsible for facilitating and leading the management council. The ACO will have the contractual authority to execute all block changes. The attached diagram shows the decision process along with timelines expected of this streamlined process.

INTERNAL GOVERNMENT RESOLUTION PROCESS

The objective of this process is to resolve disagreements, facilitate consensus, elevate and resolve issues of substantial concern, and reemphasize the overall goal and objective. If there is disagreement between PM or other customers within a component, the issue must be raised to a level within the service as designated by the CAE. If there is disagreement among the components the issue must be raised

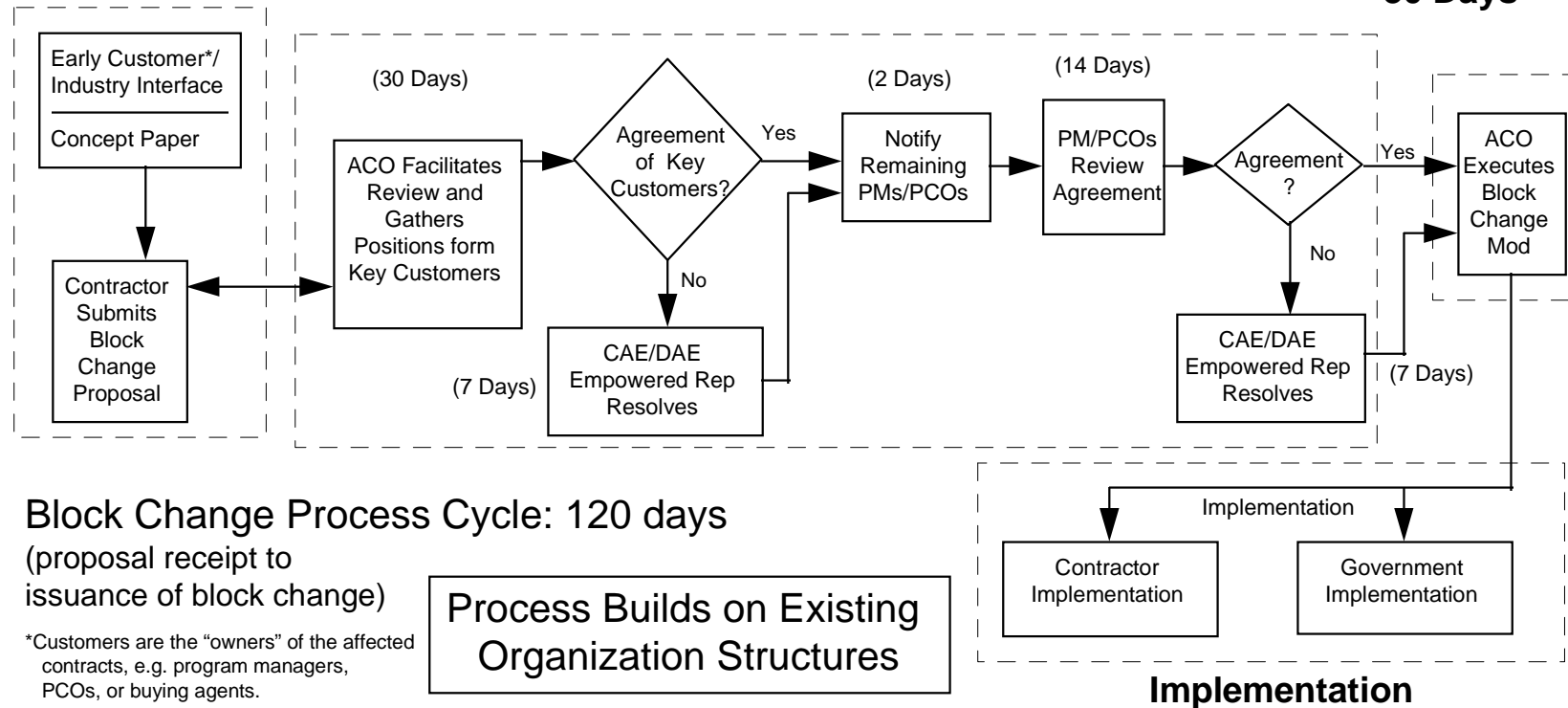
to a level within the Department as designated by the DAE. Once resolved, the ACO executes the change.

Block Change Process Overview

**Proposal Development
30 Days**

**Approval
60 Days**

**Contract
Modification
30 Days**



DEFENSE LOGISTICS AGENCY
THE DEFENSE CONTRACT MANAGEMENT COMMAND
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IN REPLY REFER TO AQOC

NOV 19 1996

MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS

SUBJECT: Single Process Initiative (SPI) -- Cost Benefit Analysis

The Department is expecting substantial savings from contractors' implementation of SPI. As such, one of the key elements of a contractor's concept paper is the inclusion of a rough order of magnitude cost benefit analysis.

It is the responsibility of the Administrative Contracting Officer (ACO) to ensure that the cost benefit analysis is adequate. This means that the analysis is based upon empirical data; that it includes the major activities needed to implement the process, and an estimated cost for each; and that it identifies those requirements to be deleted along with an estimated annual saving to both existing and future contracts. The cognizant Defense Contract Audit Agency (DCAA) field office should be requested to analyze the cost benefit analysis and provide advice as to its reasonableness. As always, ACOs should continue to use sound business judgment in arriving at their decisions.

To better posture ourselves for questions in this area, Contract Administration Offices should begin reporting in their weekly reports, the contractor's estimated cost to implement the proposed process change and their estimate of annual savings and avoidances to both existing and future contracts. I also want included in the report, those estimates arrived at by DCAA and their rationale for any differences .

Questions on this matter should be directed to Ms Marialane Schultz, my SPI Team Leader. She can be reached on (703) 767-2471, DSN 427-2471, or via the internet at mariakme_schultz@hq.dla.mil.

SIGNED
ROBERT W. DREWES
Major General, USAF
Commander

Attachment C

THE UNDER SECRETARY OF DEFENSE
ACQUISITION & TECHNOLOGY
3010 DEFENSE PENTAGON
WASHINGTON, DC 203431-34310

03 JUN 1998

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (COMMAND,
CONTROL, COMMUNICATIONS AND INTELLIGENCE)
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: The Single Process Initiative - A Long Term Perspective

Civil military integration, eliminating the distinction between doing business with the government and other buyers, is critical to meeting our future military, economic, and policy objectives. The transition of the Department of Defense (DoD) to a Performance Based Business Environment (PBBE), maximizing the use of commercial items and practices, is a key step toward achieving civil military integration. The Single Process Initiative (SPI) is the mechanism that we have chosen to implement changes to our existing contracts. Over the past two and a half years, the SPI has expedited the transition of existing contracts to common best processes, making a positive impact on the way the Department conducts business, by facilitating industry consolidation and plant modernization, encouraging innovation, and encouraging subcontractor reform. While we have made a solid beginning with this initiative, particularly in the transition of at least 140 facilities to the ISO 9000 quality standard, we have a long way to go. The replacement of multiple government-unique management and manufacturing processes with common, facility-wide processes that adopt best practices drawn from both commercial and government experience is an objective that the Secretary and I share. Your leadership is critical to the successful attainment of this objective.

Secretary of Defense memorandum on Specifications and Standards of June 29, 1994, directed the use of performance specifications to the maximum extent practicable. However, the substitute language that has been used in SPI block change modifications has not always been articulated in performance language. Therefore, I direct the DoD Component Acquisition Executives (CAEs) and the Commander, Defense Contract Management Command, to promulgate guidance to ensure that block change modifications be written in performance language whenever practicable.

Through the SPI initiative, emphasis must also be placed on integrating both prime contractors and suppliers into a performance based business environment. To assist in this integration, the Aerospace Industry Association (AIA) has established an Executive Committee to facilitate supplier reform and acceptance of best practices within AIA. I applaud AIA's initiative and will be encouraging other industry associations to follow its example.

My objective is for the SPI to achieve the integration of commercial and military facilities.

Attachment D

Several defense contractors recently have initiated corporate SPI Management Councils designed to expedite reform and facilitate best practices across the entire corporation. I encourage the expansion of this concept. I expect the CAEs to ensure that they are appropriately represented at these Corporate Management Council meetings, as well as, at local management council meetings. I also expect that the Components will expeditiously review concept papers submitted by contractors and elevate any disagreements among the components to me for resolution. This is a matter that I will review with the Component Acquisition Executives at our periodic Acquisition Reform Updates.

I expect that program executive officers and their representatives will commit resources to support the SPI, as continued emphasis on this initiative is vital. In this regard, I ask the Senior Acquisition Executives to review progress personally, to identify impediments to implementing the SPI, and to discuss with me the status of this initiative.

I have asked the Principal Deputy Under Secretary of Defense (Acquisition & Technology) to chair a Council on the SPI to facilitate this reform initiative, that will coordinate with the Defense Systems Affordability Council. This group should include representatives from corporate management councils, industry association representatives and the Component Acquisition Executives and report quarterly to me. The group will provide insight into the success of the SPI and offer solutions to the challenges identified.

By working together with our industry counterparts at the facility and corporate level, we will be able to make the kinds of change that will result in our ability to provide our customers, the warfighter, with the best value goods and services that meets their needs from a globally competitive national industrial base. I expect your full support for institutionalization of this initiative.

SIGNED
J.S. Gansler

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

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ACQUISITION AND
TECHNOLOGY

14 SEP 1999

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (COMMAND,
CONTROL, COMMUNICATIONS AND INTELLIGENCE)
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Corporate Councils

The Single Process Initiative (SPI) has resulted in the formation of industry-initiated Corporate Councils by several companies, designed to provide leadership for corporate-wide initiatives, strengthen the relationship with the Department, and elevate SPI proposals for corporate-wide endorsement and implementation. These Corporate Councils offer the Department of Defense an opportunity to communicate with key suppliers on global acquisition reform initiatives. This memorandum expands existing policy on SPI to provide guidance on the Department's relationship with Corporate Councils.

Empowerment of the DoD component representatives, who interface with the Corporate Council, by the Component Acquisition Executive and establishment of a charter is critical. Corporate Councils provide an interface between company representatives and senior component, Office of the Secretary of Defense, Defense Contract Management Command, Defense Contract Audit Agency, and, in some cases, National Aeronautics and Space Administration and Federal Aviation Administration representatives.

The corporate block change process depicted in the attached narrative and flowchart is built on existing SPI authority and designates the Defense Contract Management Command as the Department of Defense lead to implement this process. The goal of this process is to accelerate the rate of acquisition reform across the defense industrial base. Corporate Councils can also facilitate resolution of disagreements, encourage consensus, and elevate and resolve issues. Corporate initiatives can

Attachment E

either be SPI proposals or other corporate endeavors designed to achieve efficiencies for the company and ultimately produce savings for the government.

I anticipate Corporate Councils will go a long way toward achieving our goal of civil-military integration. I look forward to your full support for these Councils.

/Signed/
J.S. Gansler

Attachments
As Stated

cc:
Administrator, National Aeronautics and Space
Administration
Administrator, Federal Aviation Administration

CORPORATE COUNCIL CONCEPT PAPER

Industry is responsible for preparing and coordinating Corporate Council concept papers across the corporation, prior to submittal to the Corporate Council. Industry is encouraged, but not required, to pilot the proposed change, with government approval, at a specific facility prior to proposing the corporate wide change. Corporate concept papers should, where practicable, generally conform to the content requirements imposed on concept papers submitted at the local management council level, detailing the proposed processes and associated metrics, rough order of magnitude cost benefit analysis, the consequent changes in the government's involvement in the process, and required process and/or contractual changes. Assessment of the cost benefit of the proposed change can be made either on a business segment basis, or facility by facility basis, depending on the nature of the change. Once industry submits the concept paper to the Corporate Council, the Council should make a determination as to whether or not to proceed. If the Council does not agree to endorse it, then the process ends. If the Council considers it worthy of consideration, then the process continues.

TECHNICAL/BUSINESS REVIEW

Technical review of the concept paper can be accomplished one of two ways. If the concept paper has already been approved and successfully piloted at one or more sites, then the component representatives should coordinate with the remaining customers for approval. If the concept is new, a working group composed of subject matter experts should develop an assessment. Where practicable, the company should identify, up front, the contracts and customers that would be affected by the proposal, either by program or by contract number. The degree and availability of detail, will vary depending on the type of change proposed. Upon identification, component representatives can accomplish the technical and business review considered necessary. If up front identification of all the contracts and customers that would be affected by the proposal is not feasible, it will be accomplished at the local level, after Corporate Council endorsement. Single Process Initiative block change proposals that potentially affect essential business arrangements or product form, fit, function, or interface, require approval from affected Program Managers and Procuring

Contracting Officers. Component representatives shall notify the Defense Contract Management Command in writing when the review is complete and approval has been obtained.

CUSTOMER NOTIFICATION

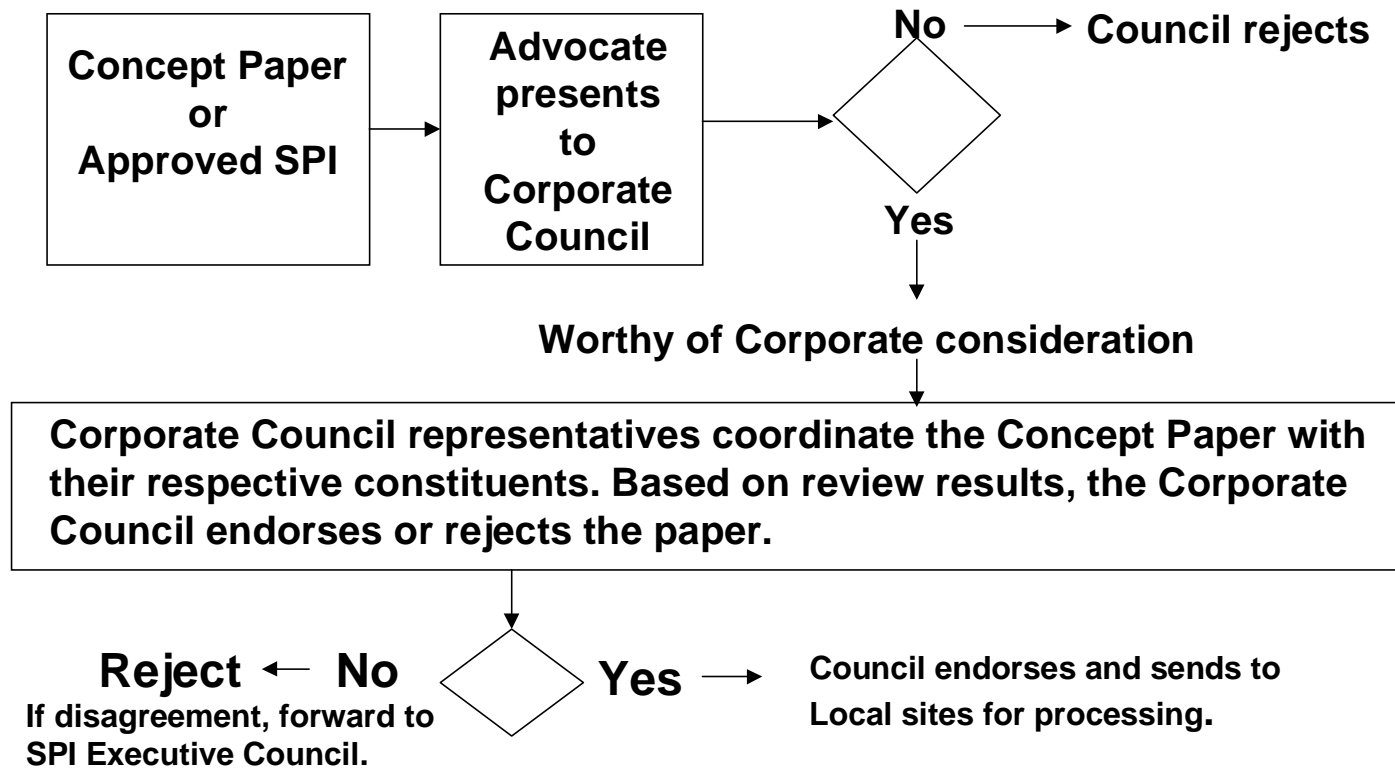
Notification of the entire customer base affected by a corporate change is ultimately the responsibility of the component representative. Written notification by the Component Acquisition Executive's representative to the affected buying organizations should be made if the component representative determines that notification of all customers is necessary.

CORPORATE COUNCIL ENDORSEMENT/ (DLA)

The Corporate Council government representative's role is to achieve consensus within and across components for corporate initiatives. If there is a disagreement between customers within a component, the issue must be raised to a level within the component as designated by the respective Component Acquisition Executive. If there is a disagreement among the components, the issue must be raised for resolution to the SPI Executive Council.

Once the technical review and customer notification is complete, Corporate Council endorsement can be in the form of a Memorandum of Agreement (MOA) or by endorsement of a contract modification. This modification should be executed by the cognizant Administrative Contracting Officer. If an MOA is chosen, this MOA will establish the corporate template for subsequent contracts and/or modifications executed by those components or agencies executing the MOA.

Corporate Council Concept Paper Review Process



**Single Process Initiative (SPI) Cost-Benefit Analysis
Examples of Agreed-Upon Procedures Report Format**

SUBJECT OF APPLICATION OF AGREED-UPON PROCEDURES

As requested by DCMA-Alexandria in a memorandum dated 1 February 2000, we applied agreed-upon procedures to the cost-benefit analysis within the concept paper submitted by ABC Company on 28 January 2000. ABC Company proposes in the concept paper to replace several software development military standards and specifications on existing contracts with a single process for software development. The new single process will eliminate the requirement for providing paper copies of in-process software code to the program offices each quarter. Instead, program offices will be provided on-line, real-time access to the software code as it is developed. The purpose of our engagement was to provide the contracting officer financial advice regarding the contractor's cost-benefit analysis.

ABC Company estimates that it will cost \$1,350,000 to implement the new process. ABC Company also estimates that the new process will result in savings (net of implementation costs) on existing contracts of \$1,400,000. For future contracts, annual savings of \$3,000,000 are expected beginning in fiscal year 2002.

SCOPE OF APPLICATION OF AGREED-UPON PROCEDURES

We have performed the mutually agreed upon procedures enumerated below solely to assist you in evaluating the reasonableness of the cost-benefit analysis submitted within ABC Company's concept paper dated 28 January 2000. This agreed-upon procedures engagement was performed in accordance with generally accepted government auditing standards. The sufficiency of the procedures is solely the responsibility of the requestor. Consequently, DCAA makes no representation regarding the sufficiency of the procedures described below, either for the purposes for which this report has been requested or for any other purpose.

We applied the following agreed-upon procedures to ABC Company's cost-benefit analysis:

- Determined whether the cost-benefit analysis provided estimates of implementation costs, savings on existing contracts, and annual future savings to reflect in forward pricing.
- Determined whether the cost-benefit analysis identified both direct and indirect implementation costs and savings.
- Determined whether all existing contracts had been considered in the savings estimates.
- Evaluated the estimating rationale to determine its reasonableness.
- Evaluated the supporting computations to determine their accuracy.

RESULTS OF APPLICATION OF AGREED-UPON PROCEDURES

This report pertains only to the performance of agreed-upon procedures to evaluate the information submitted. We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the subject matter of this report. Accordingly, we do not express an opinion on the adequacy and compliance of the submitted information. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

(First Example - No Exceptions)

The cost-benefit analysis provides a reasonable general dollar magnitude estimate of implementation costs and related savings.

(Second Example - Savings Understated and Implementation Costs Overstated)

In connection with the application of the agreed-upon procedures, we found that the implementation costs were overstated by \$500,000. ABC Company included implementation costs of \$500,000 to purchase additional computer hardware to provide on-line access to in-process software development. We found that existing hardware is sufficient to provide the on-line access. ABC Company concurs and will revise its cost-benefit analysis.

We also found that annual future savings were understated by \$1,000,000. ABC Company did not include the savings for all anticipated contracts in the estimate. ABC Company concurs and will revise its cost-benefit analysis.

(Third Example - Contractor Did Not Prepare an Estimate of Long-Term Savings to Include in Forward Pricing)

The cost-benefit analysis provides a reasonable general dollar magnitude estimate of implementation costs and savings on existing contracts. However, the contractor did not prepare an estimate of future savings to include in forward pricing proposals. ABC Company initially said that the estimate of future savings will be prepared at a later date when better information is available. We recommended that ABC Company prepare a general dollar magnitude estimate of future savings based on existing information to provide for timely incorporation into the forward pricing after the single process has been approved. This estimate will also help the government to assess the overall savings from implementing the new process. ABC Company now concurs to prepare an estimate of future savings to reflect in forward pricing and will provide that estimate by 15 March 2000.

(Fourth Example - Implementation Costs Exceed Savings)

The cost-benefit analysis provides a reasonable general dollar magnitude estimate of implementation costs and savings. However, implementation costs exceed potential savings by a significant amount. We recommend that the contractor provide sufficient rationale to justify

government acceptance of a process change that will result in increased costs. ABC Company says that the new process will substantially increase the quality of its software development process and will provide supporting data to your technical staff by May 1, 2000.

Final “Restrictions” Paragraph

This report was prepared through the use of procedures agreed upon by the requestor. The reported findings do not include an audit opinion. The information contained in this report is intended solely for the use of the intended recipients, and should not be used by them or by others for any purpose other than that for which the procedures were established.